PEHP's Business Model for Small Employers:

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Summary: Small employers in Utah have limited options with regard to providing self-funded health benefits to their employees. Employers with fewer than 50 employees are unable to provide self-funded benefits, primarily because they do not have predictable risk. The only option is to join a multi-employer risk pool or to use the fully insured market. The fully insured marketplace for the small employer is usually 25 to 30 percent more costly than what large self-funded employers provide for the same benefit package.

Because Public Employees Health Program (PEHP) is statutorily required to provide benefits on a self-funded basis and is also charged with providing benefits to the political subdivisions of the state of Utah, many of whom are employers with less than 50 employees, we have created a business model that allows our small public employers to enjoy the benefits of self-funding. Our model uses the traditional approach of pooling risk among many employers, which provides a level of financial protection to these groups that would normally only be available in the fully insured market, and allows more freedoms in terms of benefit design, reduced costs and increased service.

Local Governments Risk Pool (LGRP)

Approximately 280 local government employers currently participate in PEHP's Local Governments Risk Pool. These groups range in size from one employee to over 600 employees. These groups consist of cities, towns, counties and special service districts located in every county in Utah. Currently, there are 8,000 employees and a total membership of 27,000 enrolled in an LGRP medical plan.

PEHP offers these employees a variety of medical plans, with varying levels of benefits, based on three provider networks:

- Preferred Care Provider Network offers statewide coverage and includes providers from the IHC network and non-IHC networks.
- Advantage Care Provider Network offers regional coverage and includes providers primarily from the IHC network.
- Summit Care Provider Network offers regional coverage and is based primarily on non-IHC providers.

Currently, 30% of the total membership is enrolled in a Preferred Care plan, 41% in an Advantage Care plan, 27% in a Summit Care plan and 2% in Comprehensive Care, which is a major medical plan with no network affiliation.

Participation Standards

- A group with five or more employees must have 80% of their employees participate in health coverage. If a group has less than five employees, 100% of those employees must participate in health coverage.

- Employers must commit to a three year contract. If an employer leaves PEHP before completing 3 years of participation, the group must repay the LGRP for any deficits incurred (excess of claims paid and administrative costs over rates paid by the employer group and allocated investment earnings). The deficit will include the group's claims presented and paid by PEHP over the 12 months following their withdrawal.
- If the number of benefit eligible employees in the group increases or decreases by 10% from the renewal date, for reasons other than the natural growth or attrition of the group, PEHP may recalculate and reissue the groups monthly rate before the end of the plan year.
- A limited number of benefit plans is offered to the employers to keep administrative costs low.
- No commissions are paid to consultants or brokers from the pool.
- Premiums must be paid in advance of the coverage month. (For the private sector, two months in advance might help establish a level of financial stability for small groups.)

Reinsurance

PEHP's reinsurance plan includes both specific stop loss and aggregate reinsurance. Specific stop loss covers an individual member's medical and pharmacy claims in excess of $75,000. The reinsurance fund would reimburse claims in excess of $75,000. Aggregate reinsurance would cover claims at the risk pool level. (A risk pool of private employers should secure similar reinsurance.)

Reserves

In addition to the actuarially calculated (and funded) reserves for incurred-but-not-reported (or paid) claims, PEHP has a target of 20% of total annual premium to fund a contingency reserve. This contingency reserve can be developed over several years and is designed to smooth out any unexpected fluctuations in claims cost.

Renewal and Rate Setting

To accommodate the annual budget cycles of both counties and other public entities, PEHP has two annual renewal periods in this pool, one in January and one in July. There are several tiers, with a differential of 2.5% between each tier. At renewal, PEHP reviews the aggregate paid claims of the pool and determines an average pool increase. Each individual group is then credibility rated, based on current membership to determine their individual loss ratio (i.e., claims divided by premiums expressed as a percentage). That loss ratio is compared to the pool's loss ratio to determine tier placement. If the group's loss ratio is higher than the pool's, the group may be placed on higher tier. If it is lower, the group may be placed on a lower tier. PEHP also performs a three year look back at each renewal. If a group has a loss of ratio of 75% or lower for three consecutive years, the group's rates will be further adjusted down. Conversely, if a group has a loss ratio of 125% or more for three consecutive years, the group's rates will further adjusted up.

For new groups coming into the pool, PEHP will experience rate where possible. If experience is not available, PEHP will place group on a previously determined "average" rate tier.

Alternatively, PEHP manages other multi-employer risk pools that are "community rated" meaning all groups pay the same rate for the same plan design without regard for that group's claims experience. A self insured pool of small employers would need to decide whether to be experience or community rated.

Risk Management
A particular challenge to the viability of a self insured pool of small employers is that of attracting and retaining a good risk population to help offset the inevitable poor risk that is seeking health insurance. This poor risk constitutes less than 20% of a pool's population but will consume in excess of 80% of the claims cost. Pool management must be careful that the pool does not become the "insurer of last resort" and, in the process, jeopardize the viability of the pool for all participating employers.

Pool Management
While the ultimate management of PEHP's risk pools rests with the trustees comprising the Utah State Retirement Board, the LGRP has formed an advisory steering committee consisting of employer representatives from nine of the groups.

PEHP recommends that a self insured risk pool of small, private sector employers be managed by a board of trustees representing a broad cross-section of the stake holders. The board could include representatives of the following:

- Employers
- Plan administrators/carriers
- Regulatory (Department of Insurance)
- Other affected governmental entities (e.g. Medicaid from the Department of Health)

Premium Subsidies

- PEHP believes that a state tax credit for small employers who offer employer-sponsored health insurance to their employees may help expand coverage.
- Utah Covered at Work Program – It may be feasible to increase the financial support offered by this program by redistributing Medicaid monies for those who leave Medicaid to join employer sponsored coverage.

Other Considerations

- An extensive survey of potential enrollees to determine actual need and demographic implications should be conducted.
- A review of other state sponsored programs, such as the one instituted by the State of Montana, may be worthwhile.

PEHP's Position Regarding Pool Administration

The management of PEHP and the Utah Retirement Systems, as well the Utah State Retirement Board, has some concerns related to PEHP administering a risk pool for small employers in the private sector:

- PEHP is a public entity created under Utah law to provide employee benefit services to a narrowly defined population. Current law does not permit PEHP to administer benefits for such a group of small private sector employers.
- If PEHP is the plan administrator seed money to start the risk pool would have to be funded by the State.
- The question of who would be at risk for any plan loss if PEHP is the administrator; if a private insurance carrier is at risk for plan loss, then they would be liable (conversely, the program would be a potential source of profit for the carrier).
- The private carriers may view this as a very good partnership with the State, and the business model may allow a carrier to administer the benefits at a low cost.
- Currently PEHP's administrative resources are being stretched to capacity and PEHP has a responsibility to its current policy holders to provide a high level of service. Additional membership at this time could jeopardize that responsibility.

While supporting the goal of bringing affordable group health insurance to all of Utah's small employers, we believe the solution can be found in the private sector. PEHP is happy to share our own business model as well as our views on how a multi-employer risk pool might be structured to be successful.